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Will *Arthrex* Increase the Rare Involvement of the USPTO Director in *Inter Partes* Reviews?

On June 21, the Supreme Court decided *United States v. Arthrex, Inc.*, in which the question before the Court was whether "the authority of Administrative Patent Judges (APJs) to issue decisions on behalf of the Executive Branch is consistent with the Appointments Clause of the Constitution." No. 19-1434, -- S. Ct. --, 2021 WL 2519433, at *1 (June 21, 2021). A 5-4 majority answered that question in the negative and determined that the APJs of the Patent Trial and Appeal Board (PTAB) who decide *Inter Partes* Review (IPR) proceedings lack sufficient oversight within the Executive Branch. But instead of striking the entire IPR scheme, the Court crafted a constitutional remedy which grants direct oversight authority to the Director of the United States Patent and Trademark Office (USPTO). The Court's ruling raises immediate questions regarding how the Director will exercise this newfound authority and how IPR proceedings may change moving forward. The USPTO answered some of those questions on June 29 through the issuance of an "interim" procedure meant to implement the Supreme Court's decision; other questions remain impossible to answer with any certainty until the USPTO issues a more fulsome set of regulations or final guidance. In any event, it appears likely that practitioners will encounter more IPR proceedings in which the path from a final PTAB decision to a Federal Circuit appeal is delayed by an additional level of review within the USPTO.

A. A Brief Overview of the IPR Process

The Leahy-Smith America Invents Act of 2011 (AIA) established the PTAB, which is an executive adjudicatory body within the USPTO. Through a variety of procedures set forth in the AIA, the PTAB reviews the validity of patents that the USPTO previously issued. One such procedure is IPR, an adversarial process resembling civil litigation in many respects, in which PTAB panels reconsider whether existing patents satisfy the novelty and non-

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INSIDE

Partner Diane Cafferata Named a "2021 Woman of Influence"

The *Los Angeles Business Journal* has named partner Diane Cafferata a "2021 Woman of Influence." Diane's complex commercial litigation practice involves intellectual property, financial, and other challenging and high-stakes business disputes, and her teams have brought in more than $3 billion through trials and settlements. Diane draws from her Stanford MBA and breadth of experience to develop innovative litigation strategies for clients. Last year, Diane also published her book, *Business Litigation Demystified,* which ranked #1 in four Amazon categories in its first week. Q

Bobby Schwartz Named One of *The Hollywood Reporter*'s "Power Lawyers 2021"

Partner Bobby Schwartz was highlighted in *The Hollywood Reporter*'s "Power Lawyers 2021," an annual editorial recognizing the 100 attorneys who "have the industry's high-stakes litigation, mega-mergers and big-ticket talent pacts under control." Bobby, the co-chair of the Media & Entertainment Industry Practice, has been named one of THR's Power Lawyers every year since the list's inception in 2007. Q obviousness requirements for inventions. The panels are comprised of three APJs, who typically have expertise in the subject matter at issue in the patent.

An IPR is initiated when any person or entity, other than the patent owner and who has not previously "filed a civil action challenging the validity of a claim of the patent," files a petition with the PTAB. *See* 35 U.S.C. §§ 311, 315. The patent owner is permitted to respond to the petition, *see* 35 U.S.C. § 313, after which the PTAB must issue what is known as an "institution decision." If the PTAB determines that the information presented in the petition demonstrates that there is a "reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition," the PTAB will "institute" the IPR and proceed to a full adjudication on the merits. *See* 35 U.S.C. § 314. If this threshold showing is not made, the IPR is over before it begins; the decision whether to institute is not appealable to the Federal Circuit. *See id.*

At the conclusion of an IPR proceeding, the PTAB panel issues a final written decision (FWD) that adjudicates the validity of the challenged patent claims. Although the FWD is immediately appealable to the Federal Circuit Court of Appeals by any party to the IPR that can satisfy Article III standing requirements (Article III standing is not required to file a petition for IPR in the first instance), a dissatisfied party in the IPR can also ask that the PTAB rehear the case. Under the provisions of the AIA, "[o]nly the [PTAB] may grant rehearings" of its own adjudications. 35 U.S.C. § 6(c). In other words, the AIA gives no other person within the USPTO or the Executive Branch the ability to review or overturn a PTAB decision.

B. The Procedural Backdrop for the Court's Decision in *Arthrex*

The *Arthrex* case began like many IPRs: after patent owner Arthrex filed an infringement suit against Smith & Nephew in the Eastern District of Texas, Smith & Nephew filed a petition to institute an IPR proceeding against the patent. *See Smith & Nephew, Inc. v. Arthrex, Inc.*, IPR2017–00275, 2018 WL 2084866 (May 2, 2018). The PTAB instituted IPR and at the conclusion of the proceeding determined that several claims of Arthrex's patent (U.S. Patent No. 9,179,907) were unpatentable. *Id.*

Arthrex did not request that the PTAB rehear the case and instead appealed the decision to the Federal Circuit. *See Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019). On appeal, Arthrex raised its constitutional challenge for the first time, asserting that the APJs of the PTAB were "principal officers" of the Executive Branch who must be appointed by the President with the advice and consent of the Senate, and that their appointment by the Secretary of Commerce was therefore unconstitutional. *See id.* at 1327. The Federal Circuit agreed, and to remedy the constitutional violation, invalidated the provision of the AIA that protected the APJs from termination without cause. *See id.* at 1331-38. Making APJs removable at will and without cause by the Secretary of Commerce, the Court held, prospectively "renders them inferior rather than principal officers" who may be appointed without Senate confirmation. *Id.* at 1338.

All parties—including the United States who had intervened in the Federal Circuit appeal after Arthrex raised its constitutional challenge—were dissatisfied with the Federal Circuit's decision. The parties appealed to the Supreme Court, which granted their petitions for certiorari to consider whether the PTAB's structure is consistent with the Appointments Clause, and the appropriate remedy if it is not.

C. The Supreme Court's Decision

Pursuant to the Appointments Clause of the Constitution (Art. II, § 2, cl. 2.), Senate confirmation is required for appointed "Ambassadors, other public Ministers and Consuls, Judges of the supreme Court, and all other Officers of the United States, whose Appointments are not herein otherwise provided for." However, "Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments." In the AIA, Congress provided that APJs would be appointed as inferior officers by the Secretary of Commerce as head of a department. *See* 35 U.S.C. § 6(a).

Chief Justice Roberts, writing for a five-justice majority (Justices Roberts, Alito, Gorsuch, Kavanaugh, and Barrett), held that the nature of the APJ's responsibilities is inconsistent with their method of appointment. Without expressly determining whether the APJs are unlawfully appointed superior officers or inferior officers who have been granted too much authority, the majority held that because the "APJs have the 'power to render a final decision on behalf of the United States' without any such review by their nominal superior or any other principal officer in the Executive Branch," the APJs "accordingly exercise power that conflicts with the design of the Appointments Clause 'to preserve political accountability.'" *Arthex*, 2021 WL 2519433, at *7-8.

Chief Justice Roberts then prescribed a constitutional remedy, with six other members of the Court (Justices Alito, Kavanaugh, Barrett, Breyer, Sotomayor, and Kagan) either joining or concurring in this portion of the Opinion: "Decisions by APJs must be subject to review by the Director [of the USPTO]." *Id.* at *12. The Court held that 35 U.S.C. § 6(c) "cannot constitutionally be enforced to the extent that its requirements prevent the Director from reviewing final decisions rendered by APJs." *Id.* Thus, the Court's decision renders this provision of the AIA "unenforceable as applied to the Director insofar as it prevents the Director from reviewing the decisions of the PTAB on his own," and the Court granted the Director the ability to "engage in such review and reach his own decision." *Id.* The Court concluded, "the Director need not review every decision of the PTAB. What matters is that the Director have the discretion to review decisions rendered by APJs." *Id.* at *13.

D. What *New* Authority Did the Director Obtain and How Might That Authority Be Exercised?

In order to assess how IPR proceedings might change moving forward, it is important to first consider the powers that the Director already had prior to the Court's decision. What appears to have troubled the 5-justice majority in *Arthrex* was that the AIA afforded the Director no *direct* mechanism to review—and if necessary, set aside—any PTAB determination. *See id.* at *8. But to be sure, both the AIA and the PTAB's own procedures already gave the Director less direct—but equally effective—means to impact the outcome of any given IPR.

More specifically, although the *Arthrex* majority took issue with the provision of 35 U.S.C. § 6(c) that afforded "only" the PTAB the power to "grant rehearings," the Director has always had the ability to expand and then choose the makeup of any expanded PTAB panel, thereby selecting APJs who would share the Director's viewpoint(s) and issue a different outcome on rehearing. The USPTO's current Standard Operating Procedure (SOP) 1, while noting that expanding panels "is not favored and ordinarily will not be used," states that an "expanded panel may be used, where appropriate, to secure and maintain uniformity of the Board's decisions, *e.g.*, in related cases ordinarily involving different three judge panels." Under the SOP, the decision to expand a panel must be "approved by the Director," and by statute, the Director is granted the authority to determine who sits on each panel. 35 U.S.C. § 6(c). Directors may even appoint themselves to sit on panels. 35 U.S.C. § 6(a). In this way, the Director has always had a means to order an IPR reheard by an expanded panel of the Director's choosing.

Under the USPTO's current SOP 2, the Director also has the ability to *sua sponte* convene what is known as a "Precedential Opinion Panel." These panels are meant to "decide issues of exceptional importance (*e.g.*, involving agency policy or procedure)." This ability of Directors to select and convene such a panel, at their "sole discretion," represents yet another way in which Directors previously could have exercised oversight over PTAB panels.

In at least one case before the Federal Circuit, the USPTO admitted to using expanded panels to force "case-specific readjudication" after the initial determination of a panel. *See* Oral Argument at 48:00-25, *Yissum Research Dev. Co. v. Sony Corp.*, 626 F. App'x 1006 (Fed. Cir. 2015) (available at http://oralarguments.cafc.uscourts.gov/ default.aspx?fl=2015-1343.mp3). In other words, by expanding a panel through the mechanisms set forth in either SOP 1 or SOP 2, the USPTO Director is able to "ensure that her policy position is being enforced by the panels." *Id.* at 47:20-45; *see also, e.g.*, *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co. Matal*, 868 F.3d 1013, 1020 (Fed. Cir. 2017) (Dyk, concurring) (expressing "concern[ ] about the PTO's practice of expanding administrative panels to decide requests for rehearing in order to 'secure and maintain uniformity of the Board's decisions.'").

Putting aside the question of whether the oversight authority afforded to the USPTO Director through SOP 1 and SOP 2 renders the APJs inferior officers under the Appointments Clause—which was the main point of contention between the majority and the dissent in *Arthrex*—the practical question is whether the majority's holding that the Director may now engage in a more direct review of any IPR decision "and reach his own decision" will have an impact on cases going forward. A little over one week after the *Arthrex* decision, on June 29, the USPTO implemented what it refers to as "an interim Director review process following Arthrex." The USPTO has also posted a series of "Arthrex Q&As" to its website, which provide additional guidance. The interim review process, as currently designed, will work as follows:

1. After the PTAB has issued a FWD, the Director may review the decision *sua sponte*, or a party to the proceeding can request Director review within 30 days.
2. A party may also request Director review following rehearing by a PTAB panel, within 30 days.
3. If Director review is initiated *sua sponte*, the parties to the proceeding will be given notice and may be given an opportunity for briefing.
4. The Director's review may address any issue, including issues of fact and issues of law, and

will be *de novo*.

5. The Director review process will also apply in Post Grant Review (PGR) proceedings, which already closely resemble IPRs.
6. For now, the SOP for convening a Precedential Opinion Panel will remain in effect.

The USPTO has indicated that "the current process is envisioned as an interim procedure that may change based on input from the public and experience with conducting Director reviews. More information and updates will be provided in the near term to facilitate transparency of the process." Therefore, in the weeks and months to come, the USPTO will likely issue a more fulsome final guidance or propose regulations regarding how the Director will directly review IPR and PGR decisions. Outstanding questions that should be considered by any litigant contemplating IPR or presently engaged in IPR include:

1. Will the Director only be able intervene after the Board has issued a FWD, or can the Director review institution denials as well?
2. How much time will the Director be afforded after the issuance of a FWD to determine whether to review the case *sua sponte*? And then how much time will the Director be afforded to conduct his review and issue a decision?
3. The current guidance states that the parties "may be given an opportunity for briefing." Under what circumstances will briefing be permitted and what limitations will be placed on that briefing? For example, can the parties raise new arguments to the Director that were not already before the PTAB?
4. How much time overall will the Director's review add to the proceedings?

Although there are unanswered questions, practitioners should expect clarity on much of the above in the near-future. Practitioners should also expect that the USPTO Director will become involved in more IPR proceedings going forward. For although the Director has always had the ability to expand panels and to rehear cases, the instances in which this has happened are rare. *Cf. Vestas-Am. Wind Tech., Inc. v. Gen. Elec. Co.*, No. IPR2018-01029, 2018 WL 6658514, at *3 (P.T.A.B. Dec. 17, 2018) (declining request for rehearing by an expanded panel where doing so would not be necessary "to secure and maintain uniformity of the Board's decisions."). Yet, now that the Director has been granted express authority to review each and every IPR and PGR decision—regardless of the issues presented—it is reasonable to conclude that the Director's oversight will become a factor in more PTAB proceedings going forward, and not just in those proceedings that involve "related cases" (SOP 1) or "issues of exceptional importance" (SOP 2). Unless and until the Director issues guidance or proposes regulation that would prevent his review in all cases and for whatever reason, *Arthrex* makes clear that given the current framework of the AIA, the Director must "have the discretion to review decisions rendered by APJs." It stands to reason that this broad grant of discretion will be exercised with greater frequency than the more circumscribed discretion afforded in SOP 1 and SOP 2. Q

NOTED WITH INTEREST

English Court of Appeal Highlights Dangers of Serious Delay in Issuing Judgment

When appealing a judgment in England, the default position is that an appellate court will not interfere with the factual findings of a lower court unless it is convinced that no reasonable court could have reached that conclusion on the basis of the material before it. This is a very high bar. In practice, it means that it is rare for a lower court's factual conclusions to be overturned on appeal where those findings are based on a first instance judge's evaluation of witness evidence (where it is recognised that the trial judge has an inherent advantage over an appellate court in assessing the primary facts). This is often the case, for instance, in litigation involving complex and long-running frauds, where contemporaneous documentary evidence is often sparse and the judge's assessment as to the reliability (or otherwise) of key witnesses is crucial to the outcome.

In the recent case of *Natwest Markets PLC v Bilta (UK) Ltd [2021] EWCA Civ 680*, the Court of Appeal provided a reminder that this general rule does not apply in one particular set of circumstances: namely, where there has been a significant gap in the period between the conclusion of the trial and the issuing of the judgment. In such cases, a much less stringent standard will apply, focusing not on whether the trial judge's conclusions were wrong, but on whether the Court of Appeal can be positively satisfied that those conclusions were correct. As this case demonstrates, this can make a critical difference to the outcome of an appeal.

Background Facts and First Instance Decision

The claim in *Natwest* was concerned with a type of VAT fraud relating to the trading of carbon credits ("**EUAs**") issued under the EU Emissions Trading Scheme. The trading of EUAs within an EU Member State attracted VAT, but the import or export from one Member State to another was VAT-free. The fraud was implemented by one trading company importing EUAs from State A to State B (paying no VAT), then selling them on within State B (with VAT added). The latter transaction would give rise to a VAT liability for which the company would normally have to account to State B's tax authorities (in this case UK HMRC). At this point, the director of the trading company would syphon off the VAT and vanish, leaving an unpaid VAT liability which the company could not satisfy.

The claimants in *Natwest* were the companies (now in liquidation) whose directors had perpetrated the VAT fraud (in breach of their duties to those companies). The defendants were the employers of traders who had bought a significant quantity of EUAs (indirectly) from the claimants in June and July 2009, and allegedly turned a blind eye to the fact that the EUAs they had traded in were obviously part of a fraudulent scheme (thereby dishonestly participating in the perpetuation of that scheme).

The trial took place over five weeks in June and July 2018 (some 9 years after the relevant events had taken place). There was then a 19 month interval until judgment was handed down in March 2020. One of the central issues at trial was whether the traders had been aware of (or at least suspected) the VAT fraud at the time they had bought the EUAs. The trial judge heard evidence from the traders involved, and found that much of their evidence was not credible. He concluded that they had been at all material times aware that the EUAs were likely being sold to them as part of a wider fraudulent arrangement, and accordingly found them liable for dishonest assistance and knowingly being party to fraudulent trading.

The Court of Appeal's Decision

The crux of the defendants' appeal was that the first instance court's judgment failed to take into account a number of contemporaneous documents which were *prima facie* potentially inconsistent with the judge's conclusion that the traders had been dishonest. While the judge had been taken to these documents in the course of submissions, they were not referred to in his judgment.

The Court of Appeal began by pointing out that, in a normal case (and especially in a complex case where the judge was having to evaluate multiple, contradictory sources of evidence), a judge is not required to address every single point put to him, and the mere fact that a judgment omits to mention a particular matter pointing the other way from a judge's overall conclusion is insufficient grounds for allowing an appeal. This is because, when given in a timely fashion, a judgment "*can be assumed to have been prepared with a full recollection of the relevant evidence*".

However, the Court of Appeal went on to say that where there had been a considerable delay in issuing the judgment, the latter assumption could no longer hold. Specifically, where a delayed judgment failed to expressly refer to certain factors, it could not simply be assumed that the trial judge had nonetheless had regard to those matters in reaching his decision. The relevant test in such circumstances was not whether the judge's findings were plainly wrong, but whether the Court of Appeal could be satisfied that the original finding was correct. This would in turn warrant much closer scrutiny of the trial judge's reasoning than would typically be appropriate in an ordinary appeal.

In *Natwest* itself, the Court of Appeal found that the documents which the judge had omitted from his overt analysis were, at least on their face, potentially inconsistent with the trial judge's findings that the traders had been actively dishonest. It therefore could not be satisfied that the judge's conclusions were necessarily correct, and therefore allowed the appeal and ordered that a new trial should take place with a different judge.

Conclusion

It is noteworthy that the Court of Appeal reached this conclusion notwithstanding that it also found: (i) there was no basis to doubt the judge's conclusion as to the overall credibility of the defendants' witnesses, (ii) that the judgment had been prepared with "*considerable care and attention to detail*", (iii) that the judge clearly had a basis in the evidence for drawing the conclusions that he did, and (iv) that the additional documents may ultimately make no difference to the conclusions another trial judge may reach. Any of these factors, even in isolation, may well have been fatal to an ordinary appeal. The Court of Appeal provided no guidance as to the length of delay which would typically warrant the application of this less stringent test. However, it noted that the general expectation is that judgments will be issued within 3 months of the conclusion of the trial, and it may therefore be that any material delay beyond this will potentially engage this lower standard. Q

Construction Litigation Update

Duties and Roles of Expert Witnesses in Litigation and an Update on the Impact of COVID-19 on Contracts in the Kingdom of Saudi Arabia

The firm's update addresses 2 recent judicial decisions. The first is a case in the English Court of Appeal which will be of interest to practitioners who brief expert witnesses in litigation and arbitration (including construction disputes). The second is a case in the Kingdom of Saudi Arabia ("KSA") in relation to the impact of COVID-19 on parties' contracts.

A Lesson on the Duties of Party Appointed Experts: Secretariat Consulting & Ors v A Company (English Court of Appeal)

Party appointed expert witnesses have an important role in modern litigation and arbitration. In construction cases in particular, expert witnesses are often relied upon to a significant extent by parties to develop and then explain to the court or arbitral tribunal complex technical, delay or quantum issues. A party's case can succeed or fail on the strength of its expert evidence. Maintaining the credibility of an expert, including his or her independence, in the eyes of the decision maker is of critical importance.

Under English law, as in many jurisdictions, expert witnesses owe their primary duties to the court (or tribunal). An expert must maintain their professional independence from their client, who instructs and pays them. In practice, there is a risk that experts may become absorbed into the 'team' of lawyers and client personnel of the party instructing them. The provision of expert services for construction disputes can be very lucrative for professional experts.

While the rules dealing with a lawyer's duties in relation to conflicts of interest are well understood, an expert's obligations to avoid a conflict of interest may be less clear. In *Secretariat Consulting Pte Ltd & Ors v A Company* [2021] EWCA Civ 6 (the "Secretariat case"), the Court of Appeal of England & Wales provided helpful guidance about the duties and roles of expert witnesses in litigation and their obligations to avoid conflicts of interest.

Background to the Secretariat Case

Secretariat is a large global provider of expert services, including delay and quantum expert services for construction disputes. Its experts are often ranked highly in the league tables, and they are instructed on the largest construction disputes. In this case, the respondent to the appeal (the "Developer") was the developer of a large petrochemical plant, and was a party to two separate arbitrations brought by its project manager ("Arbitration 1") and a sub-contractor ("Arbitration 2"). An expert from Secretariat's Singapore office was engaged by the Developer in Arbitration 1. Separately, the project manager sought to engage a different expert from Secretariat's UK office (which was a different corporate entity to the Singapore office) in Arbitration 2. This led to a situation where different offices of Secretariat would be providing expert services both for and against the Developer in separate arbitrations which related to the same petrochemical plant.

The Developer asserted that Secretariat was conflicted and sought and obtained an urgent ex parte injunction from the English High Court (the Technology and Construction Court, or "TCC") to restrain Secretariat UK from acting in Arbitration 2. At first instance it was found that Secretariat owed the Developer a fiduciary duty of loyalty and that Secretariat's engagement in Arbitration 2 had or would be in breach of that duty. This was significant as it was the first decision in England where an expert had been found to owe fiduciary duties to a client. Such duties are typically reserved for established categories of relationships, such as a solicitor and their client, because of the special nature of such relationship. On this basis, Secretariat was restrained from acting in Arbitration 2. Secretariat appealed that decision to the Court of Appeal.

The Court of Appeal's Decision

In a unanimous verdict, the Court of Appeal dismissed Secretariat's appeal. The Court stated that a fiduciary duty of loyalty *may* exist between an expert and a client, but concluded that it was unnecessary to make such a finding for the purposes of this case. In reaching this decision, the Court noted that Secretariat's retainer with the Developer included conflict of interest provisions, which were standard and would typically be contained in the vast majority (if not all) expert witness retainers. Accordingly, Secretariat's obligation to avoid a conflict of interest was contractual in nature. The Court therefore left open the possible existence of the more general fiduciary duty found at first instance for another day.

The Court found that Secretariat's contractual duty to avoid conflict extended to all entities that formed part of the Secretariat group. The Court was concerned that in accepting both retainers, Secretariat would effectively be giving advice for and against the Developer in respect of issues which had a significant degree of overlap. This would lead to a situation where Secretariat could be providing conflicting advice in relation to the same issues concerning the petrochemical plant.

The Court made some interesting comments about the roles that expert witnesses play in modern litigation. The Court noted that an expert's overriding duty to the Court or tribunal could be one of the main reasons why they owed a duty of loyalty to a client. Clients require frank and honest opinions from experts on the merits of their cases, and accordingly the Court concluded that an expert who fully complies with their duty of independence to the Court or tribunal is an expert who provides their client with the best possible service. One of the criticisms levied at the heavy reliance upon evidence from party-appointed experts, particularly in international arbitration, is a perceived lack of independence . The Court's comments underscore the importance of party-appointed experts maintaining their independence and adhering to their primary duty to the Court (or tribunal), even though the Court recognised that *"the professional expert witness will be viewed, and rightly so, as part of the client's litigation team."* Courts and arbitral tribunals expect this of expert witnesses. In our experience, cases can be won or lost based on a judge or tribunal's conclusion as to the independence of the parties' expert witnesses.

COVID-19: Enhanced Powers of KSA Courts to Re-write Contracts

The coronavirus pandemic has caused major disruption to construction contracts globally. The firm has previously published a number of articles regarding the extent to which parties may be able to rely on force majeure provisions in their contracts if they consider that they are impacted by COVID-19, particularly in relation to contracts governed by the laws of various states in the Middle East (https://www.quinnemanuel.com/covid-center/).

In a recent ruling of the General Panel of the Supreme Court of the KSA, the Court held that the coronavirus pandemic constitutes a force majeure event where performance of contractual obligations has become impossible, and where:

1. The contract was entered into in advance of any restrictions being imposed in response to COVID-19 and its performance continued thereafter;
2. The pandemic has directly impacted performance of the contract, and this could not be avoided;
3. The impact on performance is solely attributable to the pandemic;
4. The counterparty has not waived, or otherwise settled, its rights in this regard; and
5. The impact of the pandemic has not otherwise been addressed pursuant to the decision of a competent authority, or a special law.

The ruling was not issued in relation to a particular set of proceedings, but rather as a guide for the KSA Courts to apply in future cases. The ruling empowers Courts in the KSA to rewrite the parties' contracts in order to ameliorate the effects of the pandemic on a party. This power allows the Courts in the KSA to increase the contract sum where the effect of the pandemic has been to increase the cost of performance to a party. The Courts could also reduce a supply obligation or suspend the contract if the pandemic has resulted in a decreased or total lack of availability of goods required to perform the contract. Furthermore, this ruling requires the KSA Courts to suspend contracts in circumstances where the pandemic has resulted in project delays. It is expected that this ruling will be the subject of significant attention in litigation in the KSA and in arbitrations concerning projects governed by the laws of the KSA (both in relation to construction disputes and more broadly).

Patent Litigation Update

Fortress's Two-Billion Dollar Verdict Against Intel Highlights a Patent Litigation Gold Rush Among Investment Firms

Recent years have seen steady growth in investment firms entering the patent litigation space. Some diversify their investment portfolios with stakes in patent litigations or licensing entities; others direct their entire business toward patent litigation. Target companies have lamented the influx of plaintiffs and litigation capital. Recent verdicts in the W.D.Tex. highlight the growth of investment firm patent litigation, along with potential benefits and risks.

In March, a jury in W.D.Tex. returned an infringement verdict against Intel in favor of a Fortress Investment Group ("Fortress") subsidiary, VLSI Technology LLC ("VLSI"), for $2.18 billion, the second largest patent verdict ever. *VLSI Technology LLC v. Intel Corp.*, No. 6:21-cv-00299 (W.D. Tex.). One month later, Intel received a non-infringement victory in another VLSI suit seeking $3.1 billion. *VLSI Technology LLC v. Intel Corp.*, No. 6:19-cv-00255 (W.D. Tex.). A third jury trial between Intel and VLSI is looming, with VLSI seeking another $2 billion. The patents involved relate to basic power processor technologies potentially applicable to millions of processors sold in the United

States each year. *VLSI v. Intel* will likely drag on through appeals and post-grant review proceedings, but it illustrates the potential windfall investment firms may recover in patent litigation, and the risk of committing capital to a potentially worthless investment. In light of these cases and the growth of investment-firm patent litigation, it is important to understand the strategies firms employ to acquire and assert patents, and what potential targets are doing to fight back.

Investment Firm Strategies for Patent Assertion

Outright Purchase: *VLSI v. Intel* offers an example of an outright purchase. Fortress founded VLSI as a holding company. *Intel Wins Trial Over Chips, Dodging $1 Billion-Plus Blow (1)*, Bloomberg Law, April 21, 2021. VLSI acquired the patents now asserted against Intel from NXP Semiconductors, which had acquired them by purchasing Freescale Semiconductors, which acquired some of the patents by acquiring SigmaTel. S. Decker, M. Bultman, *Intel Told to Pay $2.18 Billion After Losing Patent Trial*, Bloomberg, March 2, 2021. NXP Semiconductors will receive a portion of any damages or licensing fee.

The asserted patents were filed between 2000 and 2009 and expire between 2020 to 2027. They involve basic functions of modern computers such as power management. At the time of filing, mobile technology was emerging, and companies rushed to gain broad patents in the space.

Fortress located one of many basic computing patents, reached a deal to acquire those patents from a company with no interest in asserting them and that stands to profit from any verdicts and license deals. Fortress's patents withstood early validity challenges and reached a receptive jury that was willing to validate its damages model.

Acquisition of Companies Holding Patents: Target companies take many forms, including targets licensing and asserting patents. One example is Fortress's acquisition of Finjan Holdings, Inc., a NPE that owns, licenses, and asserts cybersecurity patents. Another common target holding patents is a failed (or sometime successful) startup. Some fail for reasons distinct from the quality of their technology; others fail for technological reasons, but nonetheless have strong patents. For example, Fortress leveraged its ownership stake in Theranos to emerge valuable patents despite Thernos's legal troubles. Francine McKenna, *Theranos Closes Deal with Fortress to Shut Down Embattled Firm*, MarketWatch, Sept. 17, 2018.

Acquisition of Stakes in Companies Asserting Patents: Investment firms looking to share in patent litigation profits without full risk and cost can invest in patent assertion companies. For example, SEVEN Networks Inc. ("SEVEN") is a closely held company owned by Fortress and other private equity companies. Since Fortress purchased a controlling interest in 2015, SEVEN has levied ten patent infringement suits against industry leaders including Google, which was represented by Quinn Emanuel. Most cases already have settled, and the shareholder private equity companies share a portion of each settlement.

Litigation Funding: Third party funding ("TPF") of patent litigation has grown as champerty and ethics laws have narrowed. TPF involves parties not involved directly in a matter funding a litigation and sharing in any profits. Funders do not own patents and have no right to assert them. Litigation funding typically differs little from other investment vehicles. Venture capitalists raise money from investors and issue shares that can be bought and sold like stocks. For instance, litigation funder LexShares specializes in creating a portfolio of lawsuits, of which investors can buy shares. Dan Packel, *LexShares Opens New $100M Litigation Fund to Investors*, The American Lawyer, June 10, 2020. The investors share in the proceeds stemming from those lawsuits.

Assertion Strategies

Federal Court: A federal court challenge is the most common means for asserting patents. It allows for monetary damages and does not require that an asserting entity practice its patents. Choosing the federal court route, also, often allows patent owners to select plaintiff-friendly venues and jury pools.

International Trade Commission: The ITC is a quasi-judicial federal agency before which patents can be asserted. ITC challenges offer two major benefits: (1) the average time to resolution is faster than in district court – 18 months, *Section 337 Statistics: Average Length of Investigations*, United States International Trade Commission, April 16, 2021; and (2) ITC relief offers an exclusion order to prevent importation of infringing product, which is powerful leverage in forcing a settlement. ITC challenges are not without downsides. An ITC petitioner must show a sufficient domestic industry ("DI") related to the patent. Investment firms that do not manufacture goods may struggle with the requirement. The Federal Circuit in *InterDigital Communs., LLC v. ITC*, 718 F.3d 1336 (Fed. Cir. 2013) held that DI can be satisfied through licensing. An investment must therefore find licensees before mounting an ITC challenge. In *Certain Graphics Processors, DDR Memory Controllers, and Products Containing the Same*, Inv. No. 337-TA-1037 (ITC 2017), in which Quinn Emanuel represented Qualcomm, complainant ZiiLabs relied on its license agreement with Intel to satisfy the DI requirement. The ITC's speed and remedies can be a double-edged sword. Rapid proceedings can cause limited discovery, potentially reducing evidence for proving infringement. An exclusion order can be powerful leverage, but it can be designed around and the ITC cannot award monetary damages.

Targets Fight Back

Target Litigation Defense Strategies

Investment firms often have issues showing ownership of a patent, and therefore standing, and compliance with marking statutes. Patent ownership is highly technical and complicated by each patent sale. A mistake in chain of ownership can derail a plaintiff's action. Investment firms, as non-originators of patents, require at least one purchase. Often, as in *VLSI v. Intel*, patents are sold several times prior to assertion.

Marking requires patent owners and their licensees to mark patent protected items. Failure to mark prevents a patent owner from recovering damages prior to when the defendant had actual knowledge of infringement. Investment firms aim to license their patents for profit. However, the more licensees, the more difficult to police licensee marking. Thus, early marking challenges can reduce damages and promote quicker settlements.

Defendants often emphasize that the investment firm is not an inventor. Jurors empathize with inventors, especially against corporations. Painting the plaintiff as a large investment firm can neutralize any juror tendency to support a patent owner. Emphasizing that an investment firm does not produce a product further engenders a negative reaction to the firm.

External Strategies: Win or lose, targets incur substantial expenses. Strategies that prevent or halt litigations are preferable. Inter Partes Review ("IPR") offers one method for avoiding litigation. IPR allows a defendant to present prior art to the PTAB in the hope that the Board will find the invention obvious. However, the process is far from a sure thing. Intel attempted to employ IPRs against VLSI, but each time the Board denied institution, and thus the opportunity to argue the patents were obvious.

After the failed IPRs, Intel creatively filed an antitrust complaint against Fortress. The complaint alleges Fortress's aggregation of patents "eliminat[es] competition . . . result[ing] in product suppliers having very few if any alternatives to [Fortress] to license patents . . . resulting in inflated royalties and reduced output in those markets . . . and for licenses to Defendants' overall portfolio." *Intel Corporation v. Fortress Investment Group LLC*, No. 3:2019-cv-07651 (N.D. Cal. 2021). The challenge faces a steep uphill battle. Antitrust is intended to prevent restraints of trade. Patent rights, in stark contrast, are designed to provide monopolistic control of an invention for a period in exchange for its disclosure. Intel will have to show that a monopoly on a single invention is allowable but purchasing a number of patents in the same field constitutes an unlawful restraint on trade.

Artificial Intelligence Update

Challenges with the New California B.O.T. Act

Artificial intelligence has become so advanced that a person may mistake online interactions with computers (a.k.a. "bots") as interactions with another person. The use of bots—"automated online account[s] where all or substantially all of the actions or posts of that account are not the result of a person[,]" Cal. Bus. & Prof. Code §§ 17940(a)—is the target of California's Bolstering Online Transparency ("B.O.T.") Act, which makes it "unlawful for any person to use a bot to communicate or interact with another person in California online, with the intent to mislead the other person about its artificial identity for the purpose of knowingly deceiving the person about the content of the communication in order to incentivize a purchase or sale of goods or services in a commercial transaction or to influence a vote in an election." § 17941(a). This Act has the potential to generate litigation under various related causes of action.

Consumer Class Action Litigation

Although there is no private right of action under the B.O.T. Act, this statute may generate class actions alleging violations of other consumer protection statutes based on the behavior prohibited by the B.O.T. Act, such as consumer claims under California's Unfair Competition Law ("UCL"). It would not be the first time that courts allow statutes without a private right of action to serve as the "unlawful" predicate acts for claims under the UCL. For example, courts have allowed alleged violations of the Illegal Gambling Business Act, 18 U.S.C. § 1955, and California Penal Code § 330b, neither of which provide for private enforcement, to serve as bases for actionable claims under the UCL.

Already, one class action has been filed in New York federal court under the UCL's "unlawful" prong using the B.O.T. Act as the requisite predicate act. Plaintiffs claimed that defendant Noom's trial cancellation process, which is allegedly designed to prevent cancellation and enable automatic renewal, requires consumers to find and communicate with undisclosed bots, a practice that falls squarely within the B.O.T. Act's prohibition, and therefore constitutes a violation of the UCL. Defendant Noom moved to dismiss plaintiff's claim on the ground that it sounded in fraud and did not have the requisite specificity required under Rule 9(b). Specifically, Noom argued that the BOT Act requires pleading "intent to mislead" and the plaintiff failed to plead this intent with specificity. These issues remain pending before the court and, to date, no other court has addressed them either. Given at least one plaintiff's attempt, other plaintiffs may bring similar claims under the BOT Act.

In addition to Rule 9(b) challenges, Defendants may be able to raise a variety of free speech defenses, including anti-SLAPP defenses. They may also be able to quickly defeat these types of actions by relying on immunity under the statute if they have made the requisite safe harbor disclosures that the communications are with a bot. Making these disclosures is likely the quickest way to avoid (and subsequently defeat) possible actions based on the B.O.T. Act.

Suits and Discovery Regarding Anonymous Online Activity

One issue that will likely arise is the difficulty in being able to identify the proper defendants when a person is harmed by an online actor or bot. In this technological era, it has become easier to interact with (and thereby injure) others without revealing one's identity, such as through the use of a pseudonym or false profile. The anonymity provided by advancements in technology has enabled actors to perform acts under a false name that they would not otherwise do.

One potential tool to address this difficulty is filing lawsuits against "Doe defendants." In recent years there have been many defamation actions filed against Doe defendants based on anonymous speech on social media. For example, in California, a person may be able to file a suit against a Doe defendant and use the discovery process to figure out the proper defendant(s). In *Ingrid & Isabel, LLC v. Does 1-10*, No. 18-CV-00408, 2018 WL 798883, *1 (N.D. Cal. Feb. 8, 2018), the plaintiff, a patent owner, filed a motion asking the court to let it serve a subpoena on a third party (Amazon) because plaintiff had not been able to identify the Doe defendants allegedly manufacturing and selling products, including through Amazon's site, in violation of plaintiff's patents. *Id.* After the plaintiff made the requisite showings, including that the complaint would survive a motion to dismiss, the Northern District of California found good cause and granted a subpoena allowing reasonable, limited discovery necessary to identify the Doe defendants. *Id.*

Litigants seeking to establish a violation of the B.O.T. Act, should be prepared to establish a *prima facie* case early on in the litigation given the potential challenges that may arise in seeking to reveal the identities of anonymous defendants. This is important because as part of the strategy resisting discovery of their identities, the Doe defendants may assert other defenses. For example, they might raise the right to speak anonymously on the internet or other free speech defenses that could defeat the complaint at the motion to dismiss stage.

The B.O.T. Act aims to protect Californians from being misled by interactions with undisclosed bots into making purchases or voting in a particular way. Although the statute does not provide a private right of action, that is unlikely to prevent suits based on conduct prohibited by the statute, as evident by the pending *Noom* case in New York. Potential plaintiffs need to be prepared to face challenges in establishing a *prima facie* case and identifying the proper defendants while potential defendants should be aware of steps they can take to minimize their risk of liability, including making requisite disclosures under the safe harbor.

Victory for Chinese Issuers in Securities Actions

Quinn Emanuel recently achieved dismissal with prejudice on behalf of UP Fintech Holding Limited and its directors and officers in parallel securities class actions under Sections 11 and 15 of the Securities Act of 1933 in the Southern District of New York (the "SDNY") and New York Supreme Court.

UP Fintech launched its initial public offering on March 20, 2019, shortly before the end of first quarter of 2019 ("1Q19"). In May and August 2019, the Company issued 1Q19 financials showing its two key metrics—trading volume and the resulting commission revenue—had declined substantially from the previous quarter. Subsequently, Plaintiffs' firms filed parallel class actions in the Commercial Division of New York State's Supreme Court and the SDNY, alleging that the offering materials should have disclosed that results for 1Q19—the quarter that was not yet complete at the time of the IPO—were expected to decline from the previous quarter. And both actions alleged breaches of Section 11 of the 1933 Act, which essentially imposes strict liability on the Company and any signatories because Section 11 action is subject to the pleading standards under Rule 8 of the Federal Rules of Civil Procedure, rather than the heightened pleading standards required under the Private Securities Litigation Reform Act of 1995.

Quinn Emanuel devised a strategy of utilizing the very same historical data in the IPO prospectus cited by plaintiffs to show that the accurate historical data suggest a volatile set of financial metrics that, when read in whole, could in no way suggest that the Company's results would always be favorable in the future as alleged by plaintiffs. The firm also argued that plaintiffs failed to plead any actionable omissions because the Company did not have any duty to disclose intra-quarter results and that the omitted financials could not be material in light of the Company's historical volatility and robust, detailed risk warnings.

In March 2021, Judge Furman of the SDNY granted the firm's motion to dismiss with prejudice, holding that accurate historical disclosures cannot support claims for securities fraud; that plaintiffs failed to plead that the alleged declines in trading volume and commissions was a reportable trend under Item 303 of Regulation S-K; and that any omissions were immaterial in light of UP Fintech's historical volatility and robust investor warnings. "In short," Judge Furman concluded, "in light of the dramatic quarter-to-quarter swings in trading volume and commission revenue the Registration Statement (accurately) disclosed and its warnings about the volatility of such metrics, a reasonable investor would not have viewed the additional six weeks of commissions and eleven weeks of trading volume data that Plaintiffs cite as substantially altering the total mix of information." Soon afterwards, Justice Masley of the New York Supreme Court dismissed the complaint on similar grounds, thereby resulting in a swift, clean defense victory for Quinn Emanuel's client against Sections 11 and 15 claims. Q

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business litigation report

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